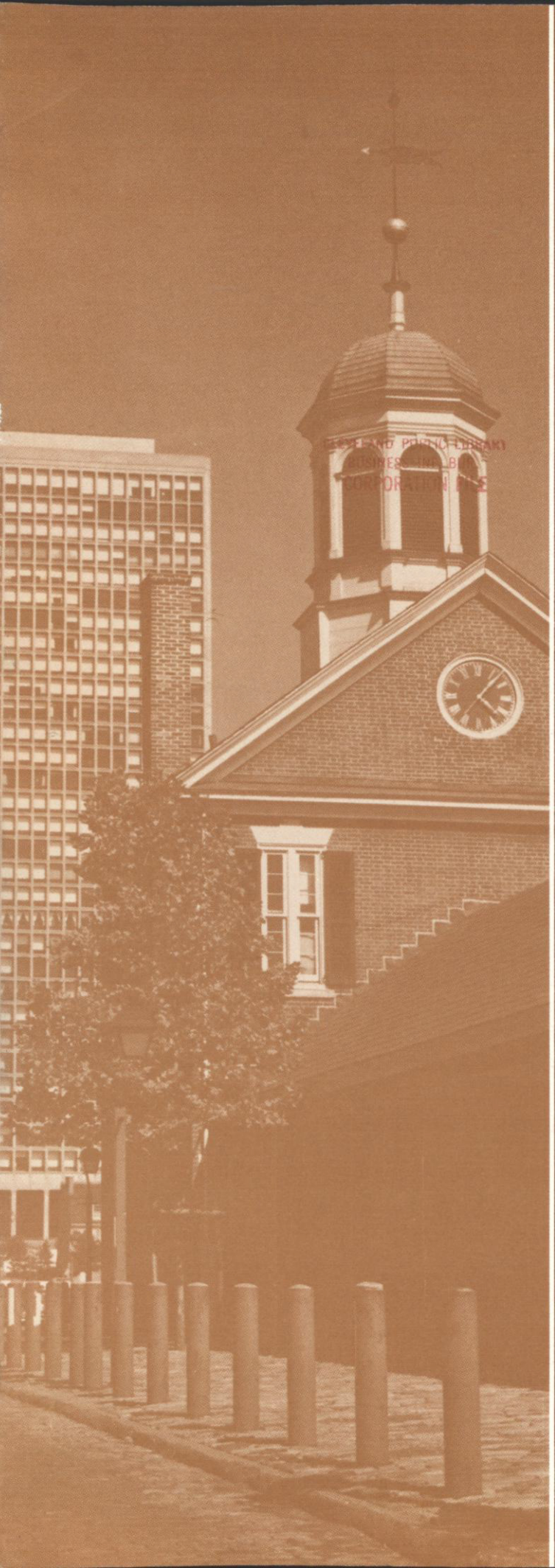
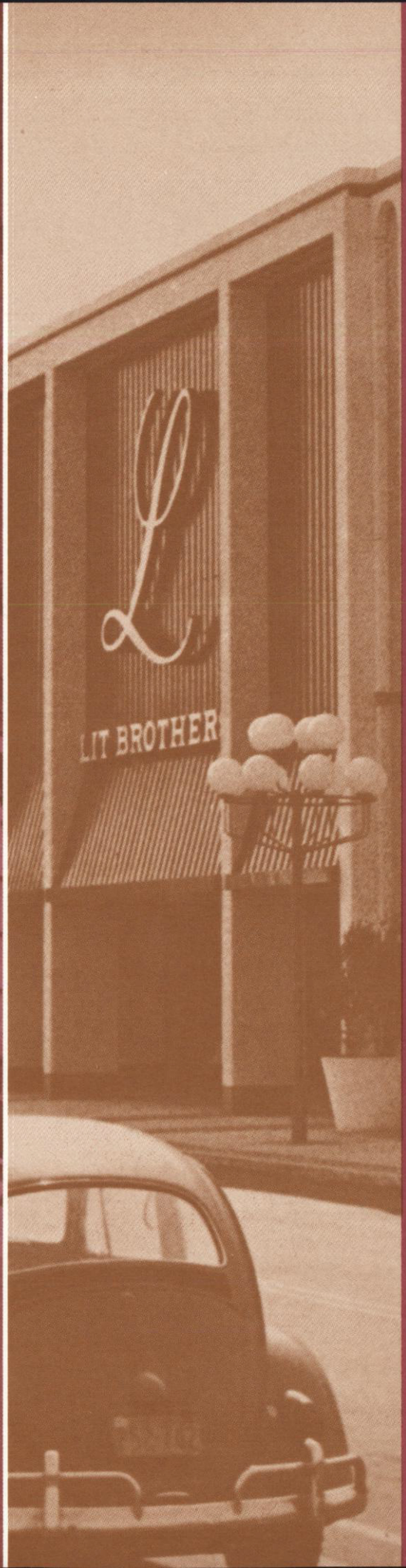


City Stores Company

Annual Report 1968



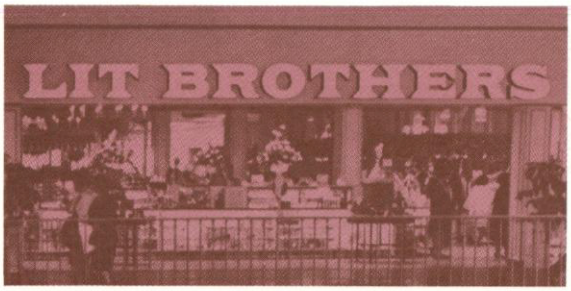
The story of Lit Brothers — the Company's largest department store division with 11 branches — is part of the story of the Philadelphia renaissance, representing a transition from the old to the new without losing the charm and historical flavor of the past. The front cover (far right) pictures the main entrance to the Lit downtown store, located on the busiest retail corner in downtown Philadelphia. The building's exterior is early 20th century, but the store is renovated with modern store facilities. Just a few blocks away is historic Independence Hall and the Liberty Bell. Within the immediate vicinity are the new Federal government complex and Society Hill's restored colonial residential homes of old historical Philadelphia, adjacent to the modern Society Hill Towers, shown on the left of the front cover. These are part of the massive and exciting Philadelphia redevelopment program.

This page shows the facade of Lit's beautiful new store in suburban Plymouth Meeting and a shopper entering a store on a restored colonial street in downtown Philadelphia.

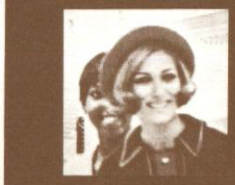
Highlights

	Year Ended	
	February 1, 1969 (52 Weeks)	February 3, 1968* (53 Weeks)
Operations		
Sales	$373,742,000	$372,109,000
Income before federal income taxes	7,504,000	7,932,000
Federal income taxes	3,835,000	3,108,000
Net income	3,669,000	4,824,000
Income per share	1.23	1.62
Dividends per share	.10	.25
Financial		
Working capital		
City Stores Company and Retail Subsidiaries	67,220,000	56,879,000
Current ratio	2.4	2.3
City Stores Company and Consolidated Subs.	66,317,000	56,025,000
Current ratio	2.3	2.2
Accounts receivable	84,832,000	81,411,000
Proceeds from financing of receivables	*27,539,000*	*41,760,000*
Inventories	47,154,000	46,240,000
Property and equipment — net		
City Stores Company and Retail Subsidiaries	37,729,000	35,692,000
City Stores Company and Consolidated Subs.	58,990,000	57,134,000
Long term debt		
City Stores Company and Retail Subsidiaries	26,347,000	16,561,000
City Stores Company and Consolidated Subs.	42,089,000	32,901,000
Ownership		
Common stock equity	79,099,000	75,419,000
Common stock equity per share	26.33	25.36
Number of shares outstanding		
Common stock — at end of year	3,004,413	2,973,613

Italics denote negative figures.
*Restated — see Note E.



To Our Stock-holders



Sales of the Company for the 52-week fiscal year ending February 1, 1969 reached a record high of $373,740,000 compared with $372,110,000 in the 53-week fiscal year ending February 3, 1968. Income before tax for the past fiscal year amounted to $7,505,000 compared with $7,932,000 in the previous year. After-tax income in fiscal 1968 amounted to $3,669,000 against $4,824,000 for fiscal 1967, or $1.23 per share compared to $1.62 per share for the respective periods. After-tax income declined at a greater rate than income before tax as a result of the 10% Federal surcharge and lower investment credits. These items amounted to 27¢ per share.

The Directors authorized the resumption of dividends on a regular basis at the rate of 10¢ per share, the first payment having been made in January, 1969 and another recently declared, payable May 2, 1969 to stockholders of record April 18, 1969.

Although most of our operating divisions showed an improvement in their pre-tax income, these gains were nullified by reverses suffered in some areas, principally in Washington, D. C. and Memphis, Tennessee, where civil disturbances seriously reduced our sales and profits. At the same time, our fashion and home furnishing specialty stores have shown a continuing improved trend of earnings. Important strides were also made toward realizing our long-term goals of modernization and expansion. These subjects, in greater detail, are set forth in the "Review of Operations" beginning on page 4 of this report.

The Company's store expansion program will be significantly increased in the next few years. An additional 275,000 square feet of store space was opened in 1968 and over 1,000,000 square feet will be added in 1969.

Realizing that the market for new and replacement furniture and home furnishings continues to expand, the Board of Directors of the Company approved a major new program of development for our highly successful W. & J. Sloane stores. Instead of concentrating on only three areas—greater New York, Washington, D. C., and San Francisco—the W. & J. Sloane business will be developed into a fully national operation with stores in the large metropolitan areas in many sections of the country. Larger stores approximating 40,000 to 50,000 square feet each will be opened in better quality market areas, either in fashion centers or in close association with nationally famous, prestige or quality department and specialty stores. To this end, we have already opened a beautiful Sloane store in the Jenkintown area of Philadelphia, Pennsylvania and additional Sloane stores are already planned for Atlanta, Georgia and Houston, Texas.

Continued emphasis will also be placed on the expansion of our exciting, unique Franklin Simon stores for the "Young

Individualist." New stores are being opened in major and regional shopping centers, in already established Franklin Simon trading areas. The regular program of renovation of older stores continues on schedule.

The year 1968 was also an important one in the long-term management building program in which our Company has been engaged for some time. Special concentration was placed on improved personnel development and we continued our intensive search to recruit and develop the quality leadership which will assist our divisions in attaining their long-range goals. James F. Ammons, Jr., was named President of Kline's in Kansas City, Missouri and Charles E. Franzke was appointed President of Lansburgh's, Washington, D. C., replacing Louis M. Frankel, whose death in August 1968, we sadly note.

Robert I. Sonfield, formerly Executive Vice-President, became President of our Maison Blanche store upon the retirement of Eldridge P. Jones after 37 years of conscientious service to the Company. Mr. Sonfield's election to the Presidency assures the continuation of the forward-looking, successful and vigorous leadership which Maison Blanche enjoyed under Mr. Jones.

A new 1969 Stock Option Plan has been proposed, subject to shareholder approval, in order to provide significant help in seeking and retaining competent executives.

We thus enter 1969 with new, young and strong management, joining our seasoned, experienced store presidents. In addition, we have also devoted considerable attention to strengthening the store organizations at the vice-presidential and supervisory levels. We are most pleased with our improved managerial team.

We continue to improve management techniques and can report important progress in our two data processing centers at Lit's and Maison Blanche, which are now providing accounts receivable and merchandising statistical service to Franklin Simon and to our five largest department stores.

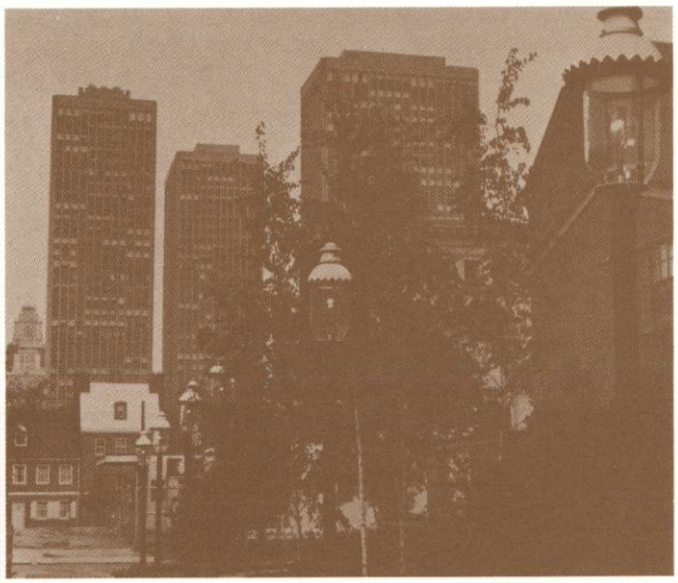
With improvements in personnel, facilities and methods, the greater emphasis now being placed on our specialty shops division and our heightened program of expansion and renovation, we believe City Stores will show solid progress in the year 1969. The years that follow should produce benefits from the investment and efforts which the shareholders and employees have made in strengthening and upgrading each of our divisions.

Respectfully submitted,

Gustave G. Amsterdam, Chairman

Isidore Newman, II, President

Review of the Year



Sales and Income

Sales in fiscal 1968, a record high, totaled $373,740,000 for 52 weeks compared with $372,110,000 for 53 weeks in 1967.

Income before taxes was $7,505,000 compared with $7,932,000 in 1967. Net income was $3,669,000 compared with $4,824,000 in 1967. After-tax income was adversely affected by $350,000 as the result of the 10% Federal income tax surcharge and by a decrease in the investment credits available of $460,000. In 1968 the LIFO provision amounted to $788,000 compared with $880,000 in 1967.

Net income amounted to $1.23 per share of common stock compared with $1.62 per share in 1967.

Working Capital

For the fiscal year 1968 working capital increased by $10,292,000 from $56,025,000 to $66,317,000. The working capital ratio at the close of 1968 was 2.31 compared with 2.20 at the close of 1967. During the fiscal year 1968 the Company borrowed $10,000,000 representing the balance available under a $25,000,000 loan agreement with The Prudential Insurance Company of America, bearing an interest rate of 6⅛% per annum. Sinking fund payments will first begin in 1971 and will retire the full $25,000,000 loan in 1987. During the past year the Company retired long term debt of $4,000,000.

The major use of working capital was the expenditure of $7,100,000 for property and equipment. Capital expenditures in 1969 are budgeted at approximately $9,000,000, which it is anticipated will be substantially provided from current operations. The principal sources of working capital and their application were as follows:

Source of funds:	
From operations:	
Net Income	$ 3,669,000
Depreciation and amortization	5,233,000
Pension reserve and other non cash items	573,000
	9,475,000
Reduction in investment and advances in City Stores Credit Corporation (not consolidated)	1,101,000
Increase in long term debt and mortgages not assumed – net	6,447,000
Proceeds from stock options exercised	311,000
Other – net	347,000
Total	$17,681,000
Application of funds:	
Additions to property and equipment–net	$ 7,089,000
Cash dividends paid	300,000
Increase in working capital	10,292,000
Total	$17,681,000

Dividends

The Company recognizes the desirability of paying regular quarterly dividends to its stockholders and resumed such a program by the payment on January 31, 1969 of a quarterly dividend of 10¢ per share on common stock. In January 1968, the Company paid a special year-end dividend of 25¢ per share.

Cash

In view of the acceleration in the rising trend of interest costs and the tightness of the money market, the Company recognized the need to conserve its cash by the adoption of a money mobilization program. This program is designed to speed up the flow of funds to the Company's depositories and to eliminate idle funds. By so doing, the Company's interest cost of $4,300,000 for 1968 was virtually held in line with that of 1967. The Company's cash position at the end of 1968 was $7,700,000 compared with $12,600,000 for 1967.

Receivables

Before deducting the proceeds from financing through City Stores Credit Corporation, a wholly owned subsidary, accounts receivable amounted to $87,360,000 compared to $84,380,000 for the previous year. Collections continued at a satisfactory level throughout the year. Proceeds from financing these receivables were reduced to $27,500,000 at the end of 1968 compared with $42,100,000 for 1967. The reduction resulted from the availability of funds arising from the money mobilization program and from the net increase in long term debt.

Inventories

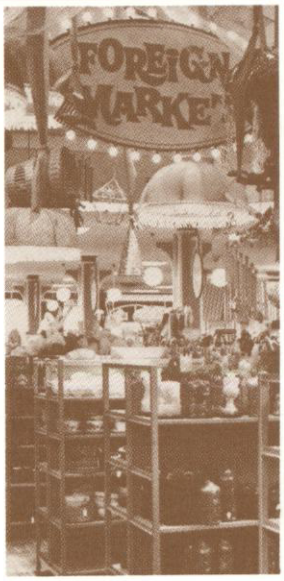
Inventories net of a LIFO reserve increased slightly from $46,240,000 to $47,160,000. The LIFO reserve at year end was $7,200,000 compared with $6,400,000 the year before.

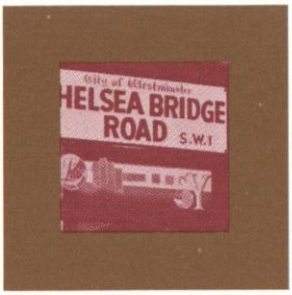
Lines of Credit

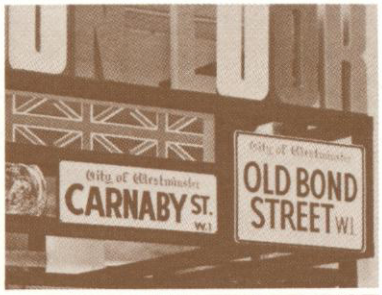
The Company has available to it $76,000,000 in current bank lines of credit, which is ample for its needs.

Taxes

Beginning with the fiscal year 1968 the Company conformed its accounting policy with respect to Federal income taxes to Opinion 11 recently issued by the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this policy, recognition is given to the income tax effect of timing differences from year to year in reporting transactions for financial and tax purposes. The Company previously had provided deferred taxes relating principally to unrealized gross profit on installment sales and to accelerated depreciation. As a result of this change, made on a retroactive basis, income reinvested in the business has been credited with $1,450,000.







Ownership

The book value per share of common stock at the end of 1968 amounted to $26.32 compared with $25.36 for 1967.

Data Processing

During the year the Lit computer center in Philadelphia was upgraded by an increase in the capacity of its NCR 315 computer. Lit's now handles the accounts receivable programs for itself, Franklin Simon and Lansburgh's and the merchandise control program for Franklin Simon. The Maison Blanche computer center in New Orleans is being converted into an NCR 315 operation which will give it substantially greater capacity and flexibility when completed. Maison Blanche will now handle its receivable programs for itself, Richards and Loveman's and plans to include Kaufman-Straus and Lowenstein's.

In addition to the major computer operations, the Company also operates Univac 1005 units at Franklin Simon, Lit's and Richards and an IBM 1440 at Wolf and Dessauer.

EXPANSION AND RENOVATION PROGRAMS

Lit Brothers

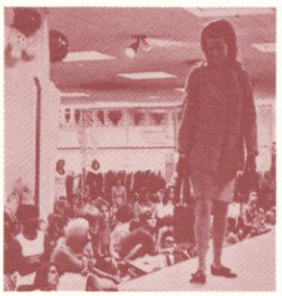
During the year Lit's completed the renovation and enlargement of its branch in northeast Philadelphia. This unit boasts the highest volume of any branch store in the Company. Construction began on a 150,000 square foot Lit store in the Berkshire Mall regional shopping center in Reading, Pennsylvania, which will open in the Fall of this year and planning started for a 165,000 square foot store to be located in the Echelon Shopping Center southeast of Camden, New Jersey. As part of the program of upgrading its various properties, Lit's closed its obsolete store in downtown Trenton, New Jersey, on July 1, 1968.

Maison Blanche

Maison Blanche completed the modernization of its large branch in Gentilly Woods in the eastern sector of New Orleans and of the third floor of its downtown store. Construction is nearly completed on its new 150,000 square foot store in the Clearview Shopping Center, which will open in August of this year. The 90,000 square foot addition to its Westside store is also under construction and this space is presently scheduled to be open in the late Fall of this year.

Richards

For the first time in several years our Richards division in Miami, Florida did not add any space. However, this year will see commencement of construction of a 130,000 square foot store in the Midway Shopping Center, of the addition of 80,000 square feet to the Palm Springs store and of 60,000 square feet to the 163rd Street Shopping Center store. The 163rd Street store will total 180,000 square feet after this



latest addition and will be the biggest branch store in the Company. In addition, a parking deck for 500 cars will be constructed adjacent to this store. Cutler Ridge Shopping Center, in which Richards has a 120,000 square foot store, is to be expanded by the addition of another major department store.

Lansburgh's

The long-awaited Tyson's Corner Shopping Center store of 155,000 square feet will open this Fall, marking Lansburgh's first branch serving the Washington, D. C. area since 1959. Negotiations have been completed for a 140,000 square foot store in downtown Rockville, Maryland, and several other sites in the Washington metropolitan area are being studied.

Loveman's

The first floor of Loveman's main store in downtown Birmingham, Alabama, has just been completely renovated and planning is underway for a 400-car garage to be built adjoining the store in 1971. The new 35,000 square foot fashion store in the Westlake Shopping Center will open in October, 1969. This store will replace the present small store in downtown Bessemer. The 110,000 square foot store in Western Hills Shopping Center on the west side of Birmingham will open in the Spring of 1970.

Wolf & Dessauer

The new 110,000 square foot branch in the Southtown Shopping Center opened March 8, 1969, and has started off at an excellent rate. The small store in downtown Huntington, Indiana, was closed in January, 1969.

Kaufman-Straus

The 40,000 square foot addition to its highly successful store in The Mall shopping center in the east of Louisville, Kentucky, will be completed this summer, following which the balance of the store will be renovated. In addition, the entire center will be substantially enlarged by the addition of a second department store and some twenty specialty shops.

Lowenstein's

The first floor of the store serving the east side of Memphis, Tennessee, is currently being remodeled following the addition of a 40,000 square foot second floor in 1967. Various major office and government projects in downtown Memphis are in the planning stage, which should, when completed, materially improve business in the new downtown store.

R. H. White's

Last Spring, R. H. White opened its first branch of 50,000 square feet in the Searstown Shopping Center, Leominster, Massachusetts.

Hearns and Kline's

While no new space was added to either of these units in 1968, each of them continued the program of keeping its properties in an up-to-date condition.

Franklin Simon

This fashion specialty store division continued its program of expanding in the trading areas it already serves. Five shopping center stores were opened in New Rochelle, New York and near Boston, Massachusetts, Detroit, Michigan and Washington, D. C. In addition, the large store in the east of Memphis, Tennessee, was extensively remodeled along with the first floor of the flagship store on New York's 34th Street. This year, Franklin Simon will open new stores in shopping centers in the south of Memphis, Tennessee; Wayne County, New Jersey; Smithtown, Long Island; Stamford, Connecticut and Nanuet, New York. The stores in Lenox Square, Atlanta, Georgia and Chestnut Hill, Massachusetts, will be renovated. Franklin Simon now operates 53 stores in 14 states and the District of Columbia.

W. & J. Sloane

As noted elsewhere, Sloane's is now embarking on the most ambitious expansion program in its history. In 1968, the East Coast division opened a 28,000 square foot store in the Fashion Center in Paramus, New Jersey, and a 55,000 square foot store in Jenkintown, Pennsylvania. This Spring, Sloane's moved into a greatly expanded store in Garden City, Long Island and into a new clearance center in Hauppauge, Long Island. In the Fall, Sloane's will open a 30,000 square foot store in Atlanta, Georgia and a 50,000 square foot store in Houston, Texas. A 50,000 square foot store in Stamford, Connecticut, replacing a smaller unit, is planned for 1970.

Sloane's Washington division has been almost completely restructured in the past year. The small Spring Valley store was replaced by the 35,000 square foot store in Bethesda, Maryland; a 50,000 square foot store was opened in Alexandria, Virginia and the Shirlington clearance center of 20,000 square feet was replaced by a 45,000 square foot store. Most importantly, the old main store on 7th Street was replaced by an elegant new store of 55,000 square feet on Connecticut Avenue. The only Sloane store in the Washington area now more than a year old is the store in the Seven Corners' Shopping Center in Virginia.

The West Coast division of Sloane's is opening its first clearance center store this year in San Mateo, California and its first new shopping center store in several years in the Northgate Shopping Center in Marin County, California.

Statement of Income

	Year Ended	
	February 1, 1969 (52 Weeks)	February 3, 1968* (53 Weeks)
Sales (including leased departments)	$373,742,333	$372,108,900
Deduct		
Cost of goods sold and operating expenses less carrying charges	356,746,034	354,484,721
Depreciation and amortization	5,232,687	5,212,980
Interest and debt expense	4,344,774	4,247,516
	366,323,495	363,945,217
	7,418,838	8,163,683
Other income – net	351,452	52,782
Minority interest *(deduction)*	*265,897*	*284,138*
Income before federal income taxes	7,504,393	7,932,327
Federal income taxes – Note E		
Current	2,318,000	1,325,000
Deferred	1,517,000	1,783,000
	3,835,000	3,108,000
Net income	$ 3,669,393	$ 4,824,327
Income per share	$1.23	$1.62

Statement of Income Reinvested in Business

Balance at beginning of year, as previously reported	$ 38,800,487	$ 34,723,127
Adjustment – Note E	1,450,207	1,446,155
Balance at beginning of year, as restated	40,250,694	36,169,282
Net income	3,669,393	4,824,327
	43,920,087	40,993,609
Dividends, $.10 and $.25 per share, respectively	300,451	742,915
Balance at end of year – Note F	$ 43,619,636	$ 40,250,694

See notes to financial statements.

*Restated – See Note E

CITY STORES COMPANY AND RETAIL SUBSIDIARIES
(Excluding Real Estate Subsidiaries and City Stores Credit Corporation)

Statement of Financial Condition

	February 1, 1969	February 3, 1968*
Assets		
CURRENT ASSETS		
Cash	$ 7,576,686	$ 12,478,969
Accounts receivable — NOTE B	56,741,498	39,266,645
Merchandise inventories — NOTE C	47,153,906	46,239,607
Supplies and prepaid expenses	4,440,394	4,308,831
TOTAL CURRENT ASSETS	115,912,484	102,294,052
INVESTMENTS AND OTHER ASSETS		
Investments and advances — NOTE A		
City Stores Credit Corporation	4,856,916	5,978,706
Real estate subsidiaries	4,550,090	4,228,967
Sundry investments and other items	1,371,205	1,407,469
	10,778,211	11,615,142
PROPERTY AND EQUIPMENT — AT COST — NOTES D AND J	75,527,300	70,578,910
Less accumulated depreciation and amortization	37,797,980	34,886,515
	37,729,320	35,692,395
UNAMORTIZED DEBT EXPENSE	34,540	37,568
	$164,454,555	$149,639,157
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	$ 34,301,378	$ 32,474,153
Current portion of long term debt and mortgages not assumed	2,954,712	936,477
Federal income taxes — current — NOTE E	200,965	3,133,590
Deferred tax credits, principally applicable to installment sales — NOTE E	11,235,646	8,871,015
TOTAL CURRENT LIABILITIES	48,692,701	45,415,235
LONG TERM DEBT, other than mortgages not assumed — NOTE F	26,347,000	16,561,000
RESERVES — NOTE G	4,426,045	3,962,475
DEFERRED TAX CREDITS — NOTE E	1,499,815	1,394,134
MORTGAGES NOT ASSUMED — NOTE J	1,913,912	4,654,624
DEFERRED CREDIT	489,894	512,294
MINORITY INTEREST	1,986,296	1,720,399
OWNERSHIP — NOTES E, F AND I		
Common Stock — $5 par value — Authorized 6,000,000 shares; outstanding 3,004,413 shares in 1969 (after deducting 12,423 shares in treasury)	15,022,065	14,868,065
Other capital	20,457,191	20,300,237
Income reinvested in business	43,619,636	40,250,694
	79,098,892	75,418,996
	$164,454,555	$149,639,157

See notes to financial statements.
*Restated — See Note E.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES
(Excluding City Stores Credit Corporation)

Statement of Financial Condition

	February 1, 1969	February 3, 1968*
Assets		
CURRENT ASSETS		
Cash	$ 7,688,821	$ 12,556,352
Accounts receivable — NOTE B	57,292,428	39,651,315
Merchandise inventories — NOTE C	47,153,906	46,239,607
Supplies and prepaid expenses	4,482,315	4,309,423
TOTAL CURRENT ASSETS	116,617,470	102,756,697
INVESTMENTS AND OTHER ASSETS		
Investments and advances — City Stores Credit Corporation — NOTE A	4,856,916	5,978,706
Sundry investments and other items	1,373,105	1,409,369
	6,230,021	7,388,075
PROPERTY AND EQUIPMENT — AT COST — NOTES D AND J	106,866,399	101,435,905
Less accumulated depreciation and amortization	47,876,581	44,302,205
	58,989,818	57,133,700
UNAMORTIZED DEBT EXPENSE	164,389	182,058
	$182,001,698	$167,460,530
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	$ 34,533,383	$ 32,673,137
Current portion of long term debt and mortgages not assumed	3,978,191	1,831,024
Federal income taxes — current — NOTE E	553,069	3,356,318
Deferred tax credits, principally applicable to installment sales – NOTE E	11,235,646	8,871,015
TOTAL CURRENT LIABILITIES	50,300,289	46,731,494
LONG TERM DEBT, other than mortgages not assumed – NOTE F		
Parent company	26,347,000	16,561,000
Real estate subsidiaries	15,741,658	16,339,653
	42,088,658	32,900,653
RESERVES — NOTE G	4,426,045	3,962,475
DEFERRED TAX CREDITS — NOTE E	1,690,412	1,559,595
MORTGAGES NOT ASSUMED — NOTE J	1,913,912	4,654,624
DEFERRED CREDIT	497,194	512,294
MINORITY INTEREST	1,986,296	1,720,399
OWNERSHIP — NOTES E, F AND I		
Common Stock — $5 par value — Authorized 6,000,000 shares; outstanding 3,004,413 shares in 1969 (after deducting 12,423 shares in treasury)	15,022,065	14,868,065
Other capital	20,457,191	20,300,237
Income reinvested in business	43,619,636	40,250,694
	79,098,892	75,418,996
	$182,001,698	$167,460,530

See notes to financial statements.
*Restated – See Note E.

Statement of Financial Condition—Note A

Assets	February 1, 1969	February 3, 1968
Cash	$ 40,926	$ 592,399
Customer receivables – purchased from City Stores Company and subsidiaries	30,598,991	46,399,806
Accrued interest receivable	36,893	16,213
	$30,676,810	$47,008,418
Liabilities		
Notes payable to banks	$22,500,000	$36,000,000
Accrued expenses	53,649	275,565
Federal income taxes	169,453	97,953
Subordinated debt – due to City Stores Company	–	1,535,000
Amount (reserve) withheld pending collection of customer receivables	3,059,899	4,639,981
Ownership		
Common Stock – $1,000 par value – Authorized 5,000 shares		
Outstanding 3,750 shares	3,750,000	3,750,000
Income reinvested in business	1,143,809	709,919
	4,893,809	4,459,919
Total subordinated debt, amount (reserve) withheld pending collection of customer receivables and ownership,* $7,953,708 and $10,634,900, respectively	$30,676,810	$47,008,418

*In accordance with an agreement between City Stores Company and the lending banks, the notes payable to banks may be four times the sum of: (a) Subordinated debt, (b) Amount (reserve) withheld pending collection of customer receivables and (c) Ownership.

Statement of Income—Note A

	Year Ended	
	February 1, 1969 (52 Weeks)	February 3, 1968 (53 Weeks)
Interest income – from City Stores Company and subsidiaries	$ 2,731,425	$ 3,409,751
Interest expense	1,820,629	2,272,168
Other expenses	5,406	5,341
	1,826,035	2,277,509
Income before federal income taxes	905,390	1,132,242
Federal income taxes	471,500	536,976
Net income	$ 433,890	$ 595,266

Statement of Income Reinvested in Business—Note A

Balance at beginning of year	$ 709,919	$ 114,653
Net income	433,890	595,266
Balance at end of year	$ 1,143,809	$ 709,919

See notes to financial statements.

Combined Summary of Net Assets—Note A

	February 1, 1969	February 3, 1968
Land, buildings, leaseholds and equipment, less depreciation	$21,260,498	$21,441,305
Mortgages payable – current portions $1,023,479 and $894,547, respectively	16,765,137	17,234,200
	4,495,361	4,207,105
Other assets, net of other liabilities and federal income taxes	54,729	21,862
Net assets consisting of intercompany accounts and ownership	$ 4,550,090	$ 4,228,967

See notes to financial statements.

Notes to Financial Statements

The consolidated financial statements of the preceding year, as restated, are included for comparison purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes relating to those financial statements.

A — PRINCIPLES OF CONSOLIDATION

The accompanying consolidated statement of financial condition of City Stores Company and consolidated subsidiaries on Page 11 includes all subsidiaries other than City Stores Credit Corporation. The consolidated statement of financial condition of City Stores Company and Retail Subsidiaries on Page 10 includes all subsidiaries other than real estate subsidiaries and City Stores Credit Corporation. The investment in the credit company in the first instance and in both the credit company and the real estate subsidiaries in the second instance are carried in the respective consolidated statements of financial condition at amounts equal to the net assets of such subsidiaries. The accounts of City Stores Credit Corporation and certain real estate subsidiaries are included in the consolidated statement of income. Financial statements of the credit company and a summary of the net assets of the real estate subsidiaries are set forth on Pages 12 and 13.

B — ACCOUNTS RECEIVABLE

The Company has an agreement with City Stores Credit Corporation under which accounts receivable are assigned to the credit company, and the credit company remits amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreement, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts receivable customers and others after deducting $371,561 last year received on account of the sale to banks of a portion of installment receivables	$86,808,758	$83,994,984
Less		
Accounts receivable assigned to City Stores Credit Corporation net of equity of $3,059,899 and $4,639,981, respectively	27,539,092	41,759,825
Allowances for doubtful accounts	2,528,168	2,968,514
	30,067,260	44,728,339
City Stores Company and Retail Subsidiaries	56,741,498	39,266,645
Real Estate Subsidiaries – other receivables	550,930	384,670
City Stores Company and Consolidated Subsidiaries	$57,292,428	$39,651,315

C — MERCHANDISE INVENTORIES (determined principally under retail method)

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately $7,200,000 more for this year and $6,400,000 more for last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	$30,891,991	$32,174,524
Less allowance for discounts	759,324	822,660
	30,132,667	31,351,864
At lower of cost or market	17,021,239	14,887,743
	$47,153,906	$46,239,607

D — PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	City Stores Company and Retail Subsidiaries	City Stores Company and Consolidated Subsidiaries
Land	$ 2,870,340	$ 11,767,860
Buildings and building improvements	14,224,543	33,510,324
Leasehold costs and improvements	22,788,792	23,331,986
Store fixtures and equipment	33,019,246	35,631,850
Improvements in progress	2,624,379	2,624,379
Total	75,527,300	106,866,399
Less accumulated depreciation and amortization	37,797,980	47,876,581
	$37,729,320	$ 58,989,818

Depreciation and amortization for financial accounting purposes has been computed on a straight-line basis principally over the estimated useful lives of the assets.

E — FEDERAL INCOME TAXES

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes on the basis of cash collections and deducts greater amounts of depreciation for tax purposes than are recorded for financial accounting purposes. Accumulated tax effects resulting from following these practices, which effects are shown in the statements of financial condition as deferred tax credits, are not liabilities and in

the normal course of business may never be paid because the Company believes that at its present rate of growth similar tax deferrals will arise in the future which will be at least equal to the reversing tax deferrals of prior periods.

The Company has adopted Opinion 11 recently issued by the Accounting Principles Board of the American Institute of Certified Public Accountants which has modified methods of accounting for deferred taxes. The Company previously had provided deferred taxes relating principally to unrealized gross profit on installment sales and to accelerated depreciation. In conformity with this Opinion the Company has retroactively adjusted its deferred tax accounts to reflect the tax effects of certain other items which are included in income for financial reporting purposes in a period other than that in which they are included in taxable income. Such adjustments resulted in an increase in income reinvested in business as at February 3, 1968 and January 28, 1967 of $1,450,207 and $1,446,155, respectively. The change in accounting for income taxes had no material effect on net income.

The provisions for federal income taxes for the years ended February 1, 1969 and February 3, 1968 have been reduced by investment credits of approximately $245,000 and $705,000, respectively.

F — LONG TERM DEBT (other than mortgages not assumed)

During the year ended February 1, 1969 the Company borrowed $10,000,000 representing the balance available under a $25,000,000 note agreement with The Prudential Insurance Company of America. The loan bears an interest rate of 6⅛%, extends for a period of twenty years and will be retired by sinking fund payments of $800,000 annually from 1971 through 1975 and $1,750,000 annually thereafter until maturity in 1987. The balance of notes payable of $1,347,000 is payable $214,000 in 1969 and serially thereafter until 1978.

Underlying loan agreements with respect to notes payable provide, among other things, for (1) the maintenance of minimum consolidated working capital, (2) restrictions on the purchase, redemption or other acquisition of the Company's common stock, and (3) restrictions on the payment of cash dividends on the Company's common stock (approximately $3,400,000 is available for the payment of dividends).

The long term debt of real estate subsidiaries consisting of mortgages (interest rates from 4¼% to 6½%) is payable $1,025,000 in 1969 and in varying annual amounts until 1990.

G — RESERVES

Reserves have been provided for the following:

	This Year	Last Year
Deferred compensation	$1,668,689	$1,500,067
Real estate dispositions	1,370,995	1,743,276
Termination of store operations	314,145	402,372
Pension	892,626	137,170
Other	179,590	179,590
	$4,426,045	$3,962,475

The reserves which were previously shown net of applicable expected federal income tax reductions have been restated in accordance with Opinion 11 referred to in Note E.

H — PENSION PLANS

The Company's non-contributory pension plans (as amended) cover, generally, employees with fifteen years of service who are not participants in any other plan to which the Company contributes. The plans provide for retirement generally at age 65 with no vesting of benefits. Although the Company does not presently contemplate funding these plans, it may do so in the future. The Company may amend, modify or terminate the plans in whole or in part at any time.

Annual amounts are provided, on the accrual basis, under these plans based on actuarial estimates of current service costs and amortization of prior service costs over thirty years. For this year the amount charged to income was approximately $1,425,000. Under the plans there is no vesting, but if there were vesting, the actuarially computed value of vested benefits, as this term is defined in Opinion 8 of the Accounting Principles Board of the American Institute of Certified Public Accountants, would amount to approximately $7,755,000.

I — STOCK OPTIONS

The Company's Stock Option Plan, as amended in 1964, makes available for granting to selected key executives stock options to purchase 125,000 shares of the Company's common stock. The Plan authorizes the granting of options at 95% of the market price at date of grant through 1963 and at 100% thereafter. Options are exercisable over a ten year period or a five year period. During the year, options to purchase 7,550 shares were granted, and options for 900 shares were cancelled. At February 1, 1969, options were outstanding for the purchase of 68,950 shares at prices ranging from $8.43 to $22.25 per share. During the year, options for 30,800 shares were exercised at prices ranging from $8.43 to $15.75 per share. Of the proceeds, $154,000 was credited to capital stock and $156,954 was credited to other capital.

On April 8, 1969 the Board of Directors adopted, subject to stockholders' approval, a new Stock Option Plan which provides for the granting of options for 100,000 shares of the Company's common stock.

J — LEASES AND OTHER COMMENTS

The minimum annual rentals payable on real property leased by the Company and its subsidiaries under leases expiring more than three years from February 1, 1969, are as follows:

(1) Company and Retail Subsidiaries – approximately $2,150,000 under leases with real estate subsidiaries and approximately $8,225,000 under leases with others (including $400,000 with its parent, Bankers Securities Corporation).

(2) Real estate subsidiaries – approximately $290,000 (of which approximately $200,000 has been guaranteed by the Company and of which $160,000 pertains to properties leased to the Company).

The cost of goods sold, buying and occupancy expenses were $272,100,000 and selling, general and administrative expenses and provision for doubtful accounts were $84,600,000.

Property and equipment include real estate in the net amount of approximately $6,700,000, principally store properties, subject to mortgages which at February 1, 1969, amounted to approximately $4,700,000. The Company is not liable on the mortgage notes. Three liquidated real estate subsidiaries remain liable on the mortgages.

The Company is negotiating with the minority stockholders of W. & J. Sloane, Inc. for the acquisition of their 16% holdings in exchange for City Stores Company common stock or other form of consideration.

Accountants' Report

S. D. Leidesdorf & Co.
Certified Public Accountants
New York, N. Y.

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries (excluding City Stores Credit Corporation) and the consolidated statement of financial condition of City Stores Company and Retail Subsidiaries (excluding real estate subsidiaries and City Stores Credit Corporation) as at February 1, 1969, the related consolidated statements of income and income reinvested in business for City Stores Company and subsidiaries for the year (52 weeks) then ended and the combined summary of net assets of the unconsolidated real estate subsidiaries as at February 1, 1969. We have also examined the statement of financial condition of City Stores Credit Corporation as at February 1, 1969, and the related statements of income and income reinvested in business for the year (52 weeks) then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly (1) the consolidated financial position of City Stores Company and consolidated subsidiaries and of City Stores Company and Retail Subsidiaries at February 1, 1969, and the consolidated results of operations of City Stores Company and subsidiaries for the year (52 weeks) then ended and (2) the financial position of City Stores Credit Corporation and the combined net assets of the unconsolidated real estate subsidiaries at February 1, 1969, and the results of operations of City Stores Credit Corporation for the year (52 weeks) then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
April 11, 1969

S. D. Leidesdorf & Co.

Historical Comparison

	February 1, 1969	February 3, 1968*	January 28, 1967	January 29, 1966	January 30, 1965
Operations					
Sales	$373,742,000	$372,109,000	$355,402,000	$335,557,000	$325,045,000
Index of sales	115	114	109	103	100
Income before federal income taxes	7,504,000	7,932,000	10,373,000	8,405,000	3,493,000
Federal income taxes	3,835,000	3,108,000	4,770,000	3,980,000	1,400,000
Net income	3,669,000	4,824,000	5,603,000	4,425,000	2,093,000**
Income per share	1.23	1.62	1.89	1.50	0.71
Dividends					
Common stock	300,451	742,915	—	—	—
Per share	0.10	0.25	—	—	—
Financial					
Working capital					
City Stores Company and Retail Subsidiaries	67,220,000	56,879,000	52,719,000	54,005,000	54,332,000
Current ratio	2.4	2.3	2.3	2.4	2.6
City Stores Company and Consolidated Subsidiaries	66,317,000	56,025,000	51,829,000	53,144,000	53,782,000
Current ratio	2.3	2.2	2.2	2.3	2.5
Accounts receivable — net of receivables sold	84,832,000	81,411,000	82,841,000	49,973,000	64,578,000
Proceeds from financing of receivables	*27,539,000*	*41,760,000*	*49,269,000*	*14,014,000*	*29,427,000*
Inventories	47,154,000	46,240,000	47,144,000	41,278,000	40,752,000
Property and equipment — net					
City Stores Company and Retail Subsidiaries	37,729,000	35,692,000	34,906,000	34,295,000	35,830,000
City Stores Company and Consolidated Subsidiaries	58,990,000	57,134,000	56,379,000	53,051,000	49,404,000
Long term debt					
City Stores Company and Retail Subsidiaries	26,347,000	16,561,000	14,544,000	16,530,000	20,928,000
City Stores Company and Consolidated Subsidiaries	42,089,000	32,901,000	31,742,000	28,386,000	30,073,000
Ownership					
Common stock equity	79,099,000	75,419,000	69,802,000	64,156,000	59,702,000
Common stock equity per share	26.33	25.36	23.54	21.67	20.18
Number of common shares outstanding					
Average during year	2,978,203	2,969,767	2,963,444	2,958,000	2,957,863
At end of year	3,004,413	2,973,613	2,965,213	2,960,513	2,957,863

Italics denote negative figures.

*Restated — see Note E; earlier years have not been restated.

**Exclusive of extraordinary items which did not result from the usual or typical business operations and have been credited or charged to income reinvested in business or to reserves.

Department Stores

LIT BROTHERS
J. P. Hansen, President

Pennsylvania:
Philadelphia†
69th Street (Upper Darby)
Northeast Philadelphia
Oregon Avenue (South Philadelphia)
Lawrence Park
Morrisville
Willow Grove
Plymouth Meeting
Berkshire Mall (Reading)*

New Jersey:
Atlantic City
Camden

MAISON BLANCHE
Isidore Newman, II, Chairman of Board
Robert I. Sonfield, President

Louisiana:
New Orleans†
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods
Clearview*

RICHARDS
Paul S. Walker, President

Florida:
Miami†
163rd Street
Cutler Ridge
Palm Springs
Fort Lauderdale
West Palm Beach
Midway Center (South Miami)*

LANSBURGH'S
Charles E. Franzke, President

District of Columbia:
Washington†

Maryland:
Langley Park

Virginia:
Shirlington
Tyson's Corner*

LOVEMAN'S
John F. Breyer, President

Alabama:
Birmingham†
Montgomery
Bessemer
Huntsville
Western Hills Mall (Fairfield)*
West Lake Mall (Bessemer)*

WOLF & DESSAUER
Nelson K. Neiman, President

Indiana:
Fort Wayne†
Southtown Mall

LOWENSTEIN'S
E. W. Hannock, Jr., President

Tennessee:
Memphis†
East
South

KAUFMAN-STRAUS
Clifford D. Hoehne, President

Kentucky:
Louisville†
Dixie Manor
The Mall (St. Matthews)

HEARN'S
Gwillyn R. Thomas, Executive Head

New York:
Bronx

R. H. WHITE
Harold A. Broomfield, President

Massachusetts:
Worcester
Leominster

Specialty Stores

FRANKLIN SIMON
Edwin G. Roberts, President

Connecticut:
Milford
Westport
Stamford*

Delaware:
Wilmington

District of Columbia:
Washington

Georgia:
Atlanta
Lenox Square
Greenbriar

Maryland:
Harundale
Mondawmin
Towson
Wheaton
Prince Georges
Montgomery Mall

Massachusetts:
Boston
Natick
Braintree
Burlington

Michigan:
Detroit
Northland
Eastland
Westland
Southland*
Oakland Mall (Troy)

Missouri:
St. Louis-Crestwood and Northwest Plaza

New Jersey:
East Orange
Eatontown
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus
Wayne*

New York:
New York City†
Yonkers
Hicksville
Manhasset
Roosevelt Field
Valley Stream
New Rochelle
Buffalo—downtown
Thruway Plaza
Nanuet* (Rockland County)

North Carolina:
Charlotte

Ohio:
Cleveland
Swifton
Richmond Mall
Parmatown
Tri-County
Summit Mall

Pennsylvania:
Philadelphia
Germantown
Willow Grove
Plymouth Meeting

Tennessee:
Memphis

Virginia:
Seven Corners

KLINE'S
James F. Ammons, Jr., President

Missouri:
Kansas City†
Ward Parkway
Antioch

Home Furnishings Stores

W. & J. SLOANE
Leonard J. Novogrod, President

California:
San Francisco
Los Altos
Sacramento
Walnut Creek
San Jose
San Mateo‡*
Northgate (Marin County)*

Connecticut:
Milford
Stamford
Westport‡
Hartford

District of Columbia:
Washington†

Maryland:
Bethesda

New Jersey:
Milburn
Ridgewood
Union‡
Paramus

New York:
New York City†
Forest Hills‡
Garden City
Hempstead‡
Manhasset
Riverdale‡
White Plains
White Plains‡
Hauppauge‡

Pennsylvania:
Jenkintown

Virginia:
Seven Corners
Shirlington‡
Alexandria

City Stores Company

Operating a total of 136 stores —

46 department stores —

60 specialty stores

30 home furnishings stores —

in 20 states and the District of Columbia.

†Main downtown store
‡Clearance Centers
*Leases signed; stores to open at varying times

Directors

Gustave G. Amsterdam*
James H. Becker*
Murry C. Becker*
David Bortin
John R. Bunting, Jr.*
Bruce H. Greenfield
J. P. Hansen
Joseph A. W. Iglehart
Louis G. Melchior*
Isidore Newman, II*
Leonard J. Novogrod
Thomas C. Pillion
Max Robb*
Edwin G. Roberts
Serge Semenenko*

*Member of Executive Committee

Officers

Gustave G. Amsterdam, *Chairman of the Board*
Isidore Newman, II, *President*
Louis G. Melchior, *Executive Vice President and Treasurer*
John F. Breyer, *Vice President*
J. P. Hansen, *Vice President*
A. Alfred Landisi, *Senior Vice President*
Leonard J. Novogrod, *Vice President*
Edwin G. Roberts, *Vice President*
Paul S. Walker, *Vice President*
Irving J. Zipin, *Secretary and General Counsel*
J. Karl Fishbach, *Corporate Controller and Assistant Treasurer*
Daniel Mandel, *Assistant Secretary*

City Stores Company

Corporation Office:
500 Fifth Avenue
New York, N. Y. 10036

New York Buying Office:
Mutual Buying Syndicate, Inc.
11 West 42nd Street
New York, N. Y. 10036

Transfer Agent
The Chase Manhattan Bank, New York, N. Y.

Co-Transfer Agent
The First Pennsylvania Banking & Trust Company, Philadelphia, Pa.

Registrar
Chemical Bank New York Trust Company, New York, N. Y.

Counsel
Goodis, Greenfield, Narin & Mann, Philadelphia, Pa.

Auditors
S. D. Leidesdorf & Co., New York, N. Y.

Annual Meeting
Wednesday, May 28, 1969 • 11 A.M. (E.D.S.T.)
Biltmore Hotel, Madison Avenue at 43rd Street
New York, New York
Biltmore Suite

Printed in U.S.A.

This drawing depicts the proposed revitalization of the downtown shopping area of Philadelphia known as Market Street East, stretching seven blocks from City Hall to the Independence Mall area, containing proposed new office buildings, shops, parking facilities and landscaped all-weather malls, including our Lit store.